

EXHIBIT 1

INTRODUCTION

From 1991 to 1998, Respondent Charles Calderon was a member of the California State Senate, representing the 30th District. Respondent Calderon for Senate '98, was the controlled committee of Respondent Charles Calderon. Respondent Phillip Pace was the treasurer of this committee. From 1996 to 1998, Respondent Charles Calderon was also a candidate for State Attorney General in the June 2, 1998 Primary Election. Respondent Calderon for Attorney General was the controlled committee of Respondent Charles Calderon.

For the purposes of this Stipulation, Respondents' violations of the Political Reform Act (the "Act")¹ are stated as follows:

- COUNT 1:** On August 26, 1996, Respondent Charles Calderon made an improper expenditure of campaign funds for personal travel expenses, by expending \$3,533 in campaign funds for a six-day stay with his family at the Hyatt Regency Lake Tahoe Resort and Casino in Incline Village, Nevada, for the purpose of attending a three-day conference, in violation of Section 89513, subdivision (a).
- COUNT 2:** Respondents Charles Calderon, Calderon for Senate '98, and Phillip Pace failed to file a pre-election campaign statement, for the reporting period July 1, 1996 to September 30, 1996, by the October 5, 1996 due date, in violation of Section 84200.5, subdivision (a).
- COUNT 3:** Respondents Charles Calderon, Calderon for Senate '98, and Phillip Pace failed to file a pre-election campaign statement, for the reporting period October 1, 1996 to October 19, 1996, by the October 24, 1996 due date, in violation of Section 84200.5, subdivision (a).
- COUNT 4:** On December 26, 1996, Respondent Charles Calderon caused Governor Pete Wilson to accept a gift in excess of the annual \$280 gift limit, by giving Governor Wilson a handmade humidior filled with ten or more cigars and not disclosing that the fair market value of the gift was approximately \$480, in violation of Sections 83116.5 and 89503, subdivision (a).
- COUNT 5:** During the reporting period July 1 to December 31, 1996, Respondent Charles

¹ The Political Reform Act is contained in Government Code sections 81000 through 91014. All statutory references are to the Government Code unless otherwise indicated. The regulations of the Fair Political Practices Commission appear at California Code of Regulations, Title 2, sections 18109-18996. All regulatory references are to Title 2 of the California Code of Regulations.

Calderon made improper expenditures of personal funds for campaign purposes without first depositing the personal funds in his campaign bank account, by using his personal American Express card to purchase personal gifts for six individual contributors, and then using campaign funds to reimburse his personal credit card account, in violation of Section 85201, subdivision (d).

COUNT 6: On May 16, 1997, Respondent Charles Calderon made an improper expenditure of campaign funds for personal vehicle expenses, by expending \$507 in campaign funds to rent a limousine for the purpose of attending a movie premier with his family, in violation of Section 89516, subdivision (b).

COUNT 7: On June 25, 1998, Respondent Charles Calderon made an improper expenditure of campaign funds for personal purposes, by expending \$470 in campaign funds to purchase clothing for his spouse, in violation of Section 89513, subdivision (d).

COUNT 8: On June 26, 1998, Respondent Charles Calderon made an improper expenditure of campaign funds for personal purposes, by expending \$2,632 in campaign funds to purchase clothing for himself, in violation of Section 89513, subdivision (d).

COUNT 9: In a campaign statement covering the reporting period March 18 to May 16, 1998, Respondents Charles Calderon and Calderon for Attorney General failed to disclose subvendor information for an \$88,747 payment made to MacWilliams, Cosgrove, Smith and Robinson, in violation of Section 84303.

COUNT 10: In a campaign statement covering the reporting period March 18 to May 16, 1998, Respondents Charles Calderon and Calderon for Attorney General failed to disclose subvendor information for a \$305,543 payment made to MacWilliams, Cosgrove, Smith and Robinson, in violation of Section 84303.

SUMMARY OF THE LAW

Prohibition Against the Personal Use of Campaign Funds

The Political Reform Act (the “Act”) provides that all expenditures of campaign funds must at least be reasonably related to a political, legislative or governmental purpose. (Section 89512.) If an expenditure of campaign funds confers a substantial personal benefit, then the expenditure must be directly related to a political, legislative or governmental purpose. (Section 89512.) For certain types of expenditures, as described below, the Act contains additional specific restrictions.

Travel Expenses. Section 89513, subdivision (a) provides that campaign funds shall not be used to reimburse a candidate for travel expenditures except when the expenditures are directly related to a political, legislative or governmental purpose. Section 89513, subdivision (a)(1) provides that travel expenditures are directly related to a political, legislative or governmental purpose if the

expenditures meet the “ordinary and necessary” standard of the Internal Revenue Service for the deduction of travel expenses. Under this standard, a candidate may use campaign funds to pay for the travel expenses of the candidate’s immediate family, when the immediate family is traveling to the same destination as the candidate, in order to accompany the candidate. (Section 89513, subd. (a)(2).)

Vehicle Expenses. Section 89516, subdivision (b) provides that campaign funds shall not be used to lease a vehicle unless the lessee is the controlled committee of the candidate, or a government agency, and the use of the vehicle is directly related to a political, legislative or governmental purpose. Section 89516, subdivision (e) provides that the use of a vehicle is considered to be directly related to a political, legislative or governmental purpose if its use for personal purposes is only incidental to its use for political, legislative or governmental purposes.

Clothing. Section 89513, subdivision (d) provides that campaign funds shall not be used to purchase campaign, business, or casual clothing, except specialty clothing that is not suitable for everyday use, including formal wear, where the specialty clothing is to be worn by the candidate or elected officer at an event that is directly related to a political, legislative or governmental purpose.

One Campaign Bank Account Requirement

Section 85201, subdivision (a) requires a candidate to establish a single, campaign bank account upon filing a statement of intention to run for public office. Section 85201, subdivision (c) provides that all contributions or loans made to the candidate, to a person on behalf of the candidate, or to the candidate’s controlled committee must be deposited in the campaign bank account. Section 85201, subdivision (d) provides that any personal funds that will be used to promote the election of the candidate must be deposited in the campaign bank account prior to expenditure. Section 85201, subdivision (e) requires that all campaign expenditures be made from the campaign bank account.

There are two exceptions to Section 85201. First, Regulation 18524, subdivision (c) permits a candidate to establish a credit card account for the bank account of his or her controlled committee. Second, Section 89511.5 permits an incumbent elected officer to use his or her personal funds for officeholder expenses without first depositing those funds in the campaign bank account, so long as the treasurer of the committee is provided with a dated receipt and a written description of the expenditure.

Duty to File Pre-election Campaign Statements

An express purpose of the Act, as set forth in Section 81002, subdivision (a), is to assure that receipts and expenditures in election campaigns are fully and truthfully disclosed, so that voters are fully informed, and improper practices are inhibited.

To that end, Section 84200.5, subdivision (a) requires elected state officers to file two pre-election statements before each election in which the officer makes a contribution or independent expenditure, even if the officer is not a candidate in the election. For November elections held in even-numbered years, Section 84200.7, subdivision (b) provides that the first pre-election statement must be

filed by October 5, for the reporting period July 1 to September 30. The same section provides that the second pre-election statement must be filed no later than 12 days before the election, for the reporting period that ends 17 days before the election.

Prohibition Against Excessive Gifts

Section 89503, subdivision (a) prohibits an elected state officer from accepting gifts from any single source totaling more than \$250 in a calendar year. The gift limit in Section 89503 increases biennially to reflect changes in the Consumer Price Index. (Section 89503, subd. (f) and Regulation 18940.2.) The annual gift limit in 1996 was \$280. The term “elected state officer” includes the Governor. (Section 82021.) Regulation 18946, subdivision (b) provides that whenever the fair market value of a gift cannot readily be ascertained because the gift is unique or unusual, the value of the gift shall be the cost to the donor. Thus, the recipient of a unique gift has a duty to contact the donor to ascertain the fair market value of the gift.

Section 83116.5 provides that any person who has filing obligations under the Act, and who purposely or negligently causes any other person to violate any provision of the Act, shall be liable in an administrative enforcement proceeding.

Duty to Disclose Detailed Information Regarding Subvendors

Section 84303 requires that expenditures made by an agent or independent contractor on behalf of, or for the benefit of a committee, must be reported by the committee as if the expenditure was made directly by the committee. Section 84211(j)(6), as it existed in 1998, requires that detailed information be disclosed about each person who provides consideration for an expenditure of \$100 or more, if his or her identity differs from that of the payee. Regulation 18431, subdivision (a)(2)(B) provides that media expenditures are a type of expenditure that must be itemized on campaign statements.

Treasurer Liability

Under Regulation 18427, subdivision (c), it is the duty of a committee’s treasurer to ensure that the committee complies with all of the requirements of the Act concerning the receipt and expenditure of funds, and the reporting of such funds. A committee’s treasurer may be held jointly and severally liable, along with the committee, for any reporting violations committed by the committee. (Sections 83116.5 and 91006.)

SUMMARY OF THE FACTS

From 1991 to 1998, Respondent Charles Calderon was a member of the California State Senate, representing the 30th District. Respondent Calderon for Senate ’98, was the controlled committee of Respondent Charles Calderon. Respondent Phillip Pace was the treasurer of this committee. From 1996 to 1998, Respondent Charles Calderon was also a candidate for State Attorney General in the June 2, 1998 Primary Election. Respondent, Calderon for Attorney General

was the controlled committee of Respondent Charles Calderon.

COUNT 1

Improper Expenditure of Campaign Funds for Personal Travel Expenses

Respondent Charles Calderon was prohibited from using campaign funds for travel expenditures, except when the expenditures were directly related to a political, legislative or governmental purpose. From Friday, July 19 to Wednesday, July 24, 1996, Respondent Charles Calderon spent six days in Incline Village, Nevada with Lisa Rodriguez² and his two sons. During his six-day visit, Respondent Charles Calderon charged \$3,533 on his American Express card, for expenses that he and his family incurred at the Hyatt Regency Lake Tahoe Resort and Casino in Incline Village, Nevada. The following month, on August 26, 1996, Respondent Charles Calderon directed his controlled committee, Calderon for Senate '98, to make a \$3,533 payment to his personal credit card account.

According to Respondent Charles Calderon, the purpose of the six-day trip was for Respondent Calderon to attend a three-day conference, from Monday, July 22 to Wednesday, July 24, 1996. However, neither Lisa Rodriguez nor his two sons accompanied Respondent Charles Calderon to the conference. Therefore, the \$3,533 payment from the controlled committee to American Express was an impermissible use of campaign funds for personal travel expenses, in violation of Section 89513, subdivision (a).

COUNTS 2-3

Failure to File Pre-election Campaign Statements

Respondents Charles Calderon, Calderon for Senate '98, and Phillip Pace were required to file pre-election campaign statements for any election in which Respondent Charles Calderon contributed campaign funds, including elections in which Respondent Charles Calderon was not a candidate. In 1996, Respondent Charles Calderon contributed campaign funds in the November 5, 1996 General Election. During the first pre-election reporting period for that election, Respondents contributed \$88,314 to six legislative candidates. During the second pre-election reporting period for that election, Respondents contributed \$15,873 to three legislative candidates. The contributions were as follows:

| Count | Reporting Period | Recipient Candidates | Amount |
|--------------|---------------------------------------------------------|-----------------------------|---------------|
| 2 | First Pre-Election Reporting Period (7/1/96-9/30/96) | Areias for Senate | \$28,379 |
| | | Betty Karnette for Senate | \$10,000 |
| | | Dede Alpert for Senate | \$25,000 |
| | | Elaine White Alquist | \$2,000 |
| | | Jeff Smith for Senate | \$10,000 |
| | | Schiff for Senate | \$12,935 |
| 3 | Second Pre-Election Reporting Period | Areias for Senate | \$3,379 |
| | | Pat Johnston for Senate | \$10,000 |

² Respondent Charles Calderon married Lisa Rodriguez on March 21, 1997.

| | | | |
|--|--------------------|-------------------|---------|
| | (10/1/96-10/19/96) | Schiff for Senate | \$2,494 |
|--|--------------------|-------------------|---------|

Because Respondents contributed campaign funds to legislative candidates during the November 5, 1996 General Election, they were required to file two pre-election campaign statements before the election. The first statement was due on October 5, 1996, and the second statement was due on October 24, 1996. By failing to file these two statements, Respondents Charles Calderon, Calderon for Senate '98 and Phillip Pace committed two violations of Section 84200.5.

COUNT 4

Causing an Elected State Officer to Accept an Illegal Gift

In 1996, elected state officers were prohibited from accepting gifts exceeding \$280 per calendar year. On November 21, 1996, Respondent Charles Calderon used \$400 in campaign funds to purchase two handmade humidors. One month later, on December 20, 1996, Respondent Charles Calderon spent \$845 in campaign funds to purchase cigars to fill the two humidors. The following week, on December 26, 1996, Respondent Charles Calderon personally delivered to Governor Pete Wilson one of the humidors filled with ten or more cigars, purchased for the two humidors. Governor Wilson accepted the gift, in violation of the \$280 gift limit imposed by Section 89503, subdivision (a). Upon being advised that the approximate fair market value of the gift exceeded the gift limit, Governor Wilson recently sent a reimbursement check for \$200 to Respondent Calderon for Senate '98.

Under Section 83116.5, Respondent Charles Calderon is liable for negligently causing Governor Wilson to violate the \$280 annual gift limit.

COUNT 5

Failure to Deposit Personal Funds into Campaign Bank Account

In 1996, Respondent Charles Calderon was required to make all campaign expenditures from the campaign bank account of his controlled committee, Calderon for Senate '98. During the reporting period of July 1 to December 31, 1996, Respondent Charles Calderon used his personal American Express credit card to purchase gifts for six individual campaign contributors. Respondent Charles Calderon then received reimbursement for these expenditures from campaign funds. The recipients of the gifts were as follows:

| Date | Contributor | Gift | Payee | Cost |
|-------------|--------------------------------------------|----------------|---------------------|-------------|
| 9/11/96 | Martin Slusser | Dinner | Eclipse Restaurant | \$279 |
| 10/25/96 | Martin Slusser | Dinner | Beverly Hills Hotel | \$128 |
| 11/21/96 | Dean Pregerson | Congratulatory | Francis-Orr | \$205 |
| 12/21/96 | Walter De Agüero | Gift for Son | Gap Kids | \$62 |
| 12/21/96 | John O'Hanesian, Bruce Nott, Michael Burns | Christmas | Geary's | \$856 |
| 12/21/96 | Martin Slusser | Housewarming | Williams Sonoma | \$221 |

Because a gift to a contributor is a fundraising expense, Respondent Charles Calderon was prohibited from purchasing such gifts with his personal funds without first depositing the funds in the campaign bank account of his controlled committee. By using his personal credit card to purchase the gifts, Respondent Charles Calderon used his personal funds for campaign purposes without first depositing those funds in his campaign bank account, in violation of Section 85201.

COUNT 6

Improper Expenditure of Campaign Funds for Personal Vehicle Expenses

Respondent Charles Calderon was prohibited from using campaign funds for vehicle expenditures, unless the expenditure was directly related to a political, legislative or governmental purpose. On April 11, 1997, Respondent Charles Calderon attended a movie premier and reception event for the movie, "Liar, Liar." He attended the event with his spouse and two sons, at the invitation of the movie's producer. Respondent Charles Calderon and his family arrived at the event in a limousine. Respondent Charles Calderon rented the limousine for \$507 with his personal American Express credit card. The following month, on May 16, 1997, Respondent Charles Calderon directed his controlled committee, Calderon for Senate '98, to make a \$507 payment to his personal credit card account.

Since the movie premier was not a political, legislative or governmental event, Respondent Calderon's use of campaign funds to rent a limousine to attend the event was not directly related to a political, legislative or governmental purpose. As such, the \$507 payment from the controlled committee to American Express was an impermissible use of campaign funds for personal vehicle expenses, in violation of Section 89516, subdivision (b).

COUNTS 7-8

Improper Expenditure of Campaign Funds for Clothing

Respondent Charles Calderon was prohibited from using campaign funds to purchase campaign, business or casual clothing. On May 6, 1998, Lisa Calderon, the spouse of Respondent Charles Calderon, purchased a skirt and a sweater for \$470 from the Nordstrom department store, to wear in a television commercial with Respondent Charles Calderon. Lisa Calderon made the \$470 purchase with her personal American Express credit card. The following month, on June 25, 1998, Respondent Charles Calderon directed his controlled committee, Calderon for Attorney General, to make a \$470 payment to Lisa Calderon's personal credit card account. This payment to American Express was an impermissible expenditure of campaign funds for clothing, in violation of Section 89513, subdivision (d).

On May 7, 1998, Respondent Charles Calderon purchased two business suits and a casual ensemble for \$2,632 from the Nordstrom department store, which he wore in a television commercial for the Attorney General election. Respondent Charles Calderon made the purchase with his personal American Express credit card. The following month, on June 26, 1998, Respondent Charles Calderon

directed his controlled committee, Calderon for Attorney General, to make a \$2,632 payment to his personal credit card account. This payment to American Express was an impermissible expenditure of campaign funds for clothing, in violation of Section 89513, subdivision (d).

COUNTS 9-10

Failure to Disclose Subvendor Information

Respondents Charles Calderon and Calderon for Attorney General were required to itemize subvendor information for any expenditure of \$100 or more made by a campaign consultant. On May 8, 1998, Respondents paid \$88,747 to the consulting firm MacWilliams, Cosgrove, Smith and Robinson for radio ads. In turn, the consulting firm paid \$74,836 of those funds to various radio stations. On May 21, Respondents filed a pre-election campaign statement for the reporting period March 18 to May 16, 1998. On the campaign statement, Respondents failed to disclose the radio stations, in violation of Section 84303.

On May 14, 1998, Respondents paid \$305,543 to the MacWilliams, Cosgrove, Smith and Robinson for television ads. In turn, the consulting firm paid \$305,543 to various television stations. On the May 21, 1998 pre-election campaign statement, Respondents failed to disclose the television stations, in violation of Section 84303.

ADDITIONAL INFORMATION

Respondent Charles Calderon has a prior enforcement record with the Fair Political Practices Commission. In 1995, Respondent Charles Calderon paid a \$15,000 administrative penalty to the Fair Political Practices Commission for failing to disclose subvendor information for campaign expenditures totaling \$32,407, and for making improper expenditures of campaign funds for personal purposes.

CONCLUSION

This matter consists of 10 counts, which carry a maximum administrative penalty of Twenty Thousand Dollars (\$20,000).

Counts 1, 6, 7 and 8 involve the personal use of campaign funds, and are therefore very serious violations. As Respondent Charles Calderon has a prior history of violating the personal use provisions of the Act, imposition of the maximum administrative penalty for each of the four violations is appropriate. Accordingly, an administrative penalty of Eight Thousand Dollars (\$8,000) against Respondent Charles Calderon is justified for Counts 1, 6, 7 and 8.

Counts 2 and 3 involve the failure to file pre-election campaign statements. The typical administrative penalty for this type of violation ranges from One Thousand Dollars to Two Thousand Dollars (\$1,000 to \$2,000) per violation, depending on the circumstances of the case. Here, since Respondents spent a significant sum of money during the 1996 General Election and did not disclose this activity, a penalty in the middle of that range is appropriate. Accordingly, an administrative penalty

of Three Thousand Dollars (\$3,000) against Respondents Charles Calderon, Calderon for Senate '98, and Phillip Pace is justified for Counts 2 and 3.

Regarding Count 4, the conduct of causing a fellow elected official to violate the annual gift limit is a very serious violation. Since Respondent Charles Calderon, as an elected official, was intimately familiar with the gift limitation, imposition of the maximum administrative penalty for this violation is appropriate. Accordingly, an administrative penalty of Two Thousand Dollars (\$2,000) against Respondent Charles Calderon is justified for Count 4.

Regarding Count 5, the typical administrative penalty for violating the one bank account rule ranges from Five Hundred Dollars to Two Thousand Dollars (\$500 to \$2,000), depending on the circumstances of the violation. In this case, since Respondent Charles Calderon made more than one isolated purchase of a campaign-related gift with his personal credit card, a penalty in the middle of that range is appropriate. Accordingly, an administrative penalty of One Thousand Dollars (\$1,000) against Respondent Charles Calderon is justified for Count 5.

Regarding Counts 9-10, the typical administrative penalty for failing to disclose subvendor information ranges from One Thousand Dollars to Two Thousand Dollars (\$1,000 to \$2,000), depending on the circumstances of the violation. Because Respondent Charles Calderon has a prior history of failing to disclose subvendor information, imposition of the maximum penalty is appropriate. Accordingly, an administrative penalty of Four Thousand Dollars (\$4,000) against Respondents Charles Calderon and Calderon for Attorney General is justified for Counts 9 and 10.

A total administrative penalty of Eighteen Thousand Dollars (\$18,000) is therefore justified, allocated as follows: (1) \$3,000 against Respondents Charles Calderon, Calderon for Senate '98, and Phillip Pace; (2) \$11,000 against Respondent Charles Calderon; (3) \$4,000 against Respondent Charles Calderon and Calderon for Attorney General.